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SUBJECT: Scen setter for Secretary Chertoff's visit to Riga

1. We look forward to welcoming you in Riga. Your visit, and the accompanying signing of the MOU (assuming agreement can be reached on the text) on the Visa Waiver Program (VWP), is a significant marker of the strength of our bilateral relationship. Joining the VWP is the foreign policy issue that average Latvians care about most and it is the lens through which the bilateral relationship is viewed. The U.S. and Latvia enjoy strong relations, including through our common membership in NATO. Latvia has been a true ally in Iraq and Afghanistan and has actively shared its successful transition to democracy with other post-Soviet states. Latvia faces challenges in the rule of law that are common in the post-Communist world but where you can deliver a strong message on the importance of the issue. Latvia faces some economic challenges including slowing growth and double digit inflation. DHS has been active in Latvia, assisting in promoting security and transparency in the port of Riga, combating financial cyber crimes, cracking down on narcotics trafficking, and working to secure Latvia's borders.

2. The US and Latvia have enjoyed 85 years of unbroken diplomatic relations and our refusal to recognize the Soviet occupation and annexation of the country has led to a strong base of public support for the US in Latvia. We led the way in supporting Latvian membership in NATO and were pleased to see them join the EU, putting to an end the historical anomaly of their separation from Europe. Latvia has stood with the US since September 11 in the fight against terrorism. It has deployed troops to Iraq and Afghanistan, losing three soldiers in Iraq. Last year, Latvia decided to focus its attention on Afghanistan; deploying troops as part of the NATO ISAF mission and police as part of the EU training mission. Later this year, Latvian troops will deploy jointly with soldiers of the Michigan national guard to train and mentor units of the Afghan National Army. Latvia has also been a strong supporter of Georgia and Moldova, assisting in their transition to democracy and a market economy and has even established a small aid program to assist them.

3. As we near 17 years since the restoration of Latvia's independence, though, the reserve of good will from the policy of non-recognition of the Soviet occupation has begun to fade. Younger Latvians question the value of the military deployments and wonder what Latvia would get in return. EU membership creates the possibility of travel, study and work within Europe, exposing young Latvians more often to European values and standards.

4. That is why admission to the VWP has been such a hot political issue here - Latvians see admission as acknowledgement that Latvia has truly joined the ranks of modern European states and that the US honestly values Latvia as a partner. Attempts on our part to separate the technical requirements for admission to VWP from the strength of the bilateral relationship have been doomed from the start. We believe that Latvia is serious about meeting its security obligations under the enhanced VWP and that Latvian admission to the program will help increase Latvian awareness and understanding of American values by facilitating travel and people-to-people contacts.

5. Latvia is making good progress on VWP related issues, expressing

a willingness to work with us on all admission criteria including information exchange. But as a small EU members state, Latvia faces challenges in handling the pressure of negotiating the MOU independent of the EU. As we move forward, we will need to further review the security of the Latvian passport issuance process (below) and air security arrangements. We believe that, based on current trends, the refusal rate for Latvians will fall below 10% by the end of the fiscal year.

16. Latvia's economy has been the fastest growing in Europe for 3 of the last 4 years, nearly reaching 10% in 2007. This has begun to decline as initial rush of post-EU membership growth slows and is likely to be only 4 - 7 % this year - a rate most countries would be ecstatic to achieve, but represents a significant slow down here. EU membership has also brought inflation as prices soar to EU levels. In 2007, it hit double digits and finished the year at 14% on an annualized basis.

17. As rapid as Latvia's growth has been, it has been hampered by corruption, which is prevalent at all levels and throughout all sectors of the economy. It also holds back Latvia's political development as many of the major political parties are tied to oligarchs who use politics to advance their personal business agendas. Latvia has seen progress in combating corruption, with several of the oligarchs under active criminal investigation and another arrested. The complexity of the cases and the vast resources of the oligarchs make successful prosecution of these cases difficult, but if convictions and stiff sentences can be secured it will help provide a brighter future for Latvia. In addition to stressing the general need to combat corruption, you can help us by talking about the importance of plea bargaining from your experience as a judge. Latvia is currently debating such a law, which is vital to the cases against the biggest fish, but those against whom it could be used are effectively distorting the reality of what it does and turning public opinion against it by calling it

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"the snitch law."

18. A recent scandal in the passport office not only illustrates the nature of the corruption problem in Latvia, but also the challenges in addressing it. Between 2003 - 2005 almost 100 individuals, mainly from Russia and other former Soviet countries, were able to secure valid Latvian passports by having fraudulent entries created for them in the Latvian citizenship register. These people paid as much as 100,000 Euros to receive these documents. As the scandal unfolded in the press at the beginning of 2008, no officials lost their jobs, although one did resign. The GOL was slow to report the problem to us and when it did, initial reports were contradictory or lacked key details. We think that this stemmed both from embarrassment at the scandal as well as from interagency turf battles. We have stressed to the Latvians, though, that this is not acceptable and that if they join VWP we would demand more rapid and accurate information of such an incident. A DHS team will visit Riga later this month to examine what happened and to learn what measures the Latvians have put in place to avoid a repeat of the scheme.

19. Another example of corruption in Latvia has been the Riga Freeport. Given its location, available capacity and connection to road and rail links it could become a real engine for future growth in Latvia, but corruption prevents it from being used to its full potential and raises the possibility of it becoming a security liability. Pursuant to a Congressional request, a DHS-led interagency team visited Riga in 2006 to conduct a study of the port. Their report identified a number of issues where security and transparency could be improved, but little action has been taken to date to address these concerns. Coast Guard personnel have also been in Latvia to assist in port security initiatives to help Latvia meet international standards.

110. Border security is a key issue for Latvia and one in which we have provided extensive assistance. Latvia joined the Schengen area in late 2007 and now forms part of the EU's (and NATO's) eastern border (with Russia and Belarus). The US has provided extensive assistance to the Latvian border guards to improve their capacity,

in particular to detect and intercept any attempt to bring nuclear material into Latvia. Given the long Latvian border with Russia (as well as Latvia's long coastline), narcotics trafficking and trafficking in persons are also issues of concern and we have also provided training and assistance in these areas.

¶11. The border with Russia is also the site of extensive backlogs of trucks from all over Europe waiting to cross into Russia. Corruption and outmoded systems contribute to the Russian delays. Latvia has appealed to the European Union for help in managing its overworked road border crossings. The long truck lines are one major area of friction in an otherwise improving Latvian-Russian relationship. Over the past two years Latvia and Russia have sought to move past their historical issues stemming from the Soviet occupation and move on to more practical cooperation. Latvia remains wary of Russia and its future intentions, though.

¶12. One area of friction in the bilateral relationship with Russia is the status of more than 400,000 individuals, mainly ethnic Russians, who are not citizens of Latvia. About half of all ethnic Russians are not citizens. These are individuals who moved to Latvia during the occupation or their descendents. They can become citizens, but must pass a test of Latvian language, history and government. Many resent the need to naturalize or feel that the language requirement is too hard. In 2007, the EU granted these individuals the ability to travel within the union without visas and eased the employment restrictions on them, thus reducing the incentives for naturalization. The ethnic Russian community has asked whether we will extend VWP privileges to the non-citizen community here, analogous to the EU's step.

¶13. The fact that over 35% of all Latvians (and 50% of the residents of the capital, Riga) have Russian as their first language gives rise to two separate media spaces in Latvia; one in Latvian and one in Russian. Their coverage reflects the divergent interests of the two communities and the Russian language media's line on foreign policy tends to be pro-Moscow in its orientation. Questions from the press will focus largely on when Latvians can actually begin to travel under the VWP, VWP participation by non-citizens, the above mentioned passport scandal, and possibly the port.

¶14. I appreciate you making the stop in Riga, even if short. It will show that we are committed to working with Latvia in partnership and it will show progress on the issue most important to the man on the street.

LARSON